BRITISH RAILWAY FINANCE

WITH SPECIAL REFERENCE TO CAPITAL CHARGES

BY

J. RUSSELL SOWRAY, F.S.S.

LONDON: EDWARD STANFORD

12, 13, & 14, LONG ACRE, W.C.

1907

Price One Shilling

BRITISH RAILWAY FINANCE

WITH SPECIAL REFERENCE TO CAPITAL CHARGES

BY

J. RUSSELL SOWRAY, F.S.S.

"Borrowing dulls the edge of husbandry."

LONDON: EDWARD STANFORD,
12, 13, & 14, LONG ACRE, W.C.
1907.

BRITISH RAILWAY FINANCE.

THE recently issued Railway Returns of the United Kingdom for the year 1906 contain a formidable array of figures which is not calculated to attract the ordinary reader, though worthy of attentive consideration by those who have a pecuniary interest in railway securities.

The writer is not aware that a census has ever been taken, but it would be interesting to know the present number of shareholders in the railways of the United Kingdom; of that great body of proprietors, the majority of whom never attend a half-yearly meeting but are satisfied to act as sleeping partners, supporting the Directors, when asked to do so, by means of their proxies, and accepting whatever dividend is granted to them, merely regretting that it is not larger and hoping that it may improve in the future. Some (though of course a very imperfect) indication is, however, afforded by a statement at the last half-yearly meeting of the North Eastern Railway Company, when the chairman said that "the Ordinary Stock of the Company was £31,000,000 and the number of Ordinary Shareholders was about 31,000—an average of £1,000 each." Owing to investments by Trustees the average holding in the Preference and Debenture Stocks was probably more than

this, while, on the other hand, the average holding in some of the less important Companies is probably less ; but, taking £1,000 as the average holding in British Railways, it follows that somewhere about 1,300,000 persons are to some extent dependent on the continued success of railway enterprise, and that consequently the future prospects of our great railway system should possess considerable public interest—the more so as there are positive indications that, notwithstanding Commercial prosperity, the dividends are not now so good as they were eight or ten years ago.

It is proposed, therefore, to shew some of the financial results of British Railways, and thus endeavour to arrive at an estimate of what is the present position, and what may be the future prospects, of the companies which have provided the great network of lines throughout the United Kingdom.

The figures dealt with are those published in the railway returns issued annually by the Board of Trade; but, before dealing with them, some explanations respecting them are necessary.

In regard to the capital account, it must be borne in mind that the amount inserted in the railway returns is the total capital called "Paid up capital" entitled to interest or to participate in dividends, and that it includes the large nominal additions which have been made to capital by the conversion, consolidation and division of stocks,

while it omits the comparatively small amounts by which such capital has been in a few cases reduced.

The objectionable practice of nominally increasing the capital by mere book entries, either for stock-jobbing purposes or to give a more moderate appearance to the interest payable on the preferential stocks, is equivalent to the issue of stock at a heavy discount. The most objectionable operation, however, has been that adopted by some companies of nominally doubling the ordinary stock, for the purpose of converting it into preferred and deferred stock, when the object could have been as well secured by splitting instead of doubling it.

Furthermore, large sums have been received by some companies on the issue of stocks at a premium, the amount of the premiums having been treated, and expended, as capital, but, not being entitled to dividend, has been excluded from the figures representing the paid up capital, although, had the money been raised by the issue of stocks at par, the amount of stock, and consequently the amount of paid up capital, would have had to be increased by the amount of such premiums. On the other hand the paid up capital includes the nominal additions to which the less prosperous companies have sometimes had to submit by the issue of stocks at a discount, the additions (beyond the cash actually received) being the difference

between the par value of the stocks, upon which interest or dividends are payable, and the price at which such stocks were issued.

Prior to 1890 no figures, explaining these differences between the nominal and the actual capital paid up in cash, appeared in the official returns, and this renders it inconvenient to employ the figures for earlier years for purposes of comparison; but, since 1889, the returns have given the amounts by which the capital has been nominally altered in consequence of the conversion, consolidation, division or writing down of stocks. They contain no information, however, as to the difference between the nominal amount and the amount actually received of those stocks which have been issued at a premium or at a discount.

If the differences between the amount of capital, without the nominal additions, and the amount upon which interest or dividends are now payable were comparatively small, they might be disregarded; but they are large in the aggregate, and vary each year, so that they offer some difficulty in comparing the results of different years.

Under these circumstances it has been deemed necessary to give (1) the figures representing the capital as nominally altered, with the results obtained from them, and (2) the figures and results obtained by adopting the capital as it would have appeared if no nominal alterations had been made

in it. The premiums charged and the discounts allowed on the issue of stocks, above or below par, will, however, still remain a disturbing element, as to which the official returns afford no information.

The capital in the official tables is the capital at the end of each year, and consequently, when there has been a substantial increase of capital during the year, the proportion of net receipts to capital is somewhat higher than the calculated percentage.

Next as to the income account, it is necessary to explain that the receipts and expenditure given in the official tables frequently differ from the figures in the half-yearly accounts of the companies, and do not in all cases, or for all years, include the whole of either receipts or expenditure, so that the net receipts shown in the tables do not always represent the sums available for distribution among the owners of the "Paid up capital."

It is impossible to explain, with any degree of certainty, the differences which exist between the Board of Trade tables and the half-yearly accounts of the companies, but the writer thinks that in some cases, at all events, the miscellaneous receipts and payments in the "net revenue account" of the companies have been omitted from the returns to the Board of Trade.

Another general explanation is that the receipts from passenger traffic include the receipts from season tickets, whereas the number of passengers conveyed (*i.e.*, passenger journeys)

excludes season ticket holders. If the number of journeys taken by season ticket holders could be registered, some millions would be added to the number of passengers.

These explanations are necessary to a correct understanding of the figures.

The years 1890, 1898 and 1906, are dealt with in a table which follows; they are fairly comparable years excepting that the coal strike in South Wales in 1898 seriously affected the receipts for that year of the Great Western and other railways trading in South Wales, so that the results for that year are somewhat lower than they otherwise would have been. But before dealing with particular years it may be as well to give the proportion of net receipts to capital, both including and excluding nominal additions to capital, for each year commencing with 1890 :—

	Including nominal additions.	Excluding nominal additions.		Including nominal additions.	Excluding nominal additions.
1890	4·10	4·37	1898	3·55	4·24
1	4·00	4·29	9	3·61	4·30
2	3 85	4·15	1900	3·41	4·05
3	3 60	3·91	1	3·27	3 88
4	3·77	4·10	2	3·42	4·05
5	3·80	4·17	3	3·43	4·05
6	3·88	4·33	4	3·39	4·01
7	3 73	4·34	5	3·42	4·03
AVERAGE	3·84	4·41	AVERAGE	3·47	4·15
			1906	3·45	4·07

The facts shew that comparing the eight years to 1905 with the eight years to 1897, the average per centage of net receipts to capital fell off 0·37 (including) or 0·26 (excluding) the nominal additions to capital, while the result for the year 1906 differed little from the average for the previous eight years.

The following table compares the leading statistical features of United Kingdom railways in the years 1890, 1898, and 1906.

In reading this table, notice must be taken of the fact that, in the year 1898, there was a slight falling off in the net receipts as compared with 1897 owing, partly at all events, to a strike of miners in South Wales, so that 1898 is not quite a normal year, and this fact has some effect on a few of the per centages in the last two columns of the table. The increase of net receipts, comparing 1890 and 1898, might, under ordinary circumstances, have been about 2 per cent. more, and, comparing 1898 and 1906, about 2 per cent. less than in the table.

It will be seen that as between 1890 and 1898 the capital ranking for interest or dividend had increased 26.4 per cent., but that fully one half the increase was due to nominal additions; while between 1898 and 1906 the nominal additions had been so much smaller in amount that, although the per centage increase of capital paid in cash was higher than between 1890 and 1898, the per

United Kingdom.

	Years.			Percentage of increase (+) or decrease (−) comparing	
	1890.	1898.	1906.	1890 & 1898	1898 & 1906
*Capital "paid up" (entitled to rank for interest or dividend)	897,472,026	1,134,468,462	1,286,883,341	+ 26·4	+ 13·1
Capital "paid up" (excluding nominal additions)	840,447,791	950,955,315	1,091,597,690	+ 13·1	+ 14·8
Miles of railway open for traffic	20,073	21,659	23,063	+ 7·9	+ 6·5
Proportion of lines double or more than double to total mileage	54·7%	54·9%	55·5%	+ ·2	+ ·6
Capital per mile of railway (including nominal additions)	44,710	52,379	55,799	+ 17·2	+ 6·5
Capital per mile of railway (excluding nominal additions)	41,870	43,906	47,331	+ 4·9	+ 7·8
Gross Traffic receipts	79,948,702	96,252,501	117,227,931	+ 20·4	+ 21·8
Working Expenditure	43,188,556	55,960,543	72,781,854	+ 29·6	+ 30·1
Proportion of receipts absorbed by Expenditure	54·0%	58·1%	62·1%	+ 4·1	+ 4·0
Net Traffic receipts.	36,760,146	40,291,958	44,446,077	+ 9·6	+ 10·3
Net Traffic receipts per mile of railway	1,831	1,860	1,927	+ 1·6	+ 3·6
Proportion of net traffic receipts to capital (including nominal additions)	4·10%	3·55%	3·45%	— ·55	— ·10
Proportion of net traffic receipts to capital (excluding nominal additions)	4·37%	4·24%	4·07%	— ·13	— ·17
Dividends on Ordinary Shares (mean)	4·51%	3·67%	3·35%	— ·84	— ·32
†Interest or dividends on Preferential Capital (mean)	4·07%	3.69%	3·51%	— ·38	— ·18
Number of Passengers carried (excluding season ticket holders)	817,744,046	1,062,911,116	1,240,347,132	+ 30·0	+ 16·7
Tonnage of Goods carried	303,119,427	378,563,085	488,790,683	+ 24·9	+ 29·1
Train miles travelled—Passenger trains	166,666,787	209,007,959	253,548,389	+ 25·4	+ 21·3
Train miles travelled—Goods trains	143,625,568	169,253,027	158,879,364	+ 17·8	— 6·1
Gross receipts per train mile—Passenger	4*s* 1*d*	4*s*	3*s* 11*d*	— 1*d*	— 1*d*
Gross receipts per train mile—Goods	5*s* 10*d*	5*s* 9¾*d*	7*s* 4*d*	— ¼*d*	+ 1*s* 6¼*d*

* *i.e.*, including nominal additions. † Including Preference Stock, Debentures and Debenture Stock, Loans and Guaranteed Stock.

Note.—The average rate of dividends on ordinary shares, and the average rate of interest or dividend on Preferential capital are derived from figures given in the Board of Trade returns, and it is therein stated that they have been computed from the rates returned by the companies as having been paid and the amounts of capital to which each rate applied.

centage increase of the total capital was less than half. The last column, comparing 1898 and 1906, shews that the capital had increased 13 per cent. but the mileage of railway had increased only 6½ per cent., so that the capital per mile had increased 6½ per cent. The gross takings in 1906 were nearly 22 per cent. higher than in 1898, but the expenditure was 30 per cent. higher, so that the net receipts were only 10⅓ per cent. higher, while, the capital entitled to rank having increased 13 per cent., it followed that the proportion of net receipts to capital and the dividends paid suffered a decline. The number of passengers carried was about 16¾ per cent. higher in 1906 than in 1898, but the number of passenger train miles travelled was 21⅓ per cent. higher, which does not indicate greater economy in this branch of the traffic. On the other hand, while the tonnage of goods conveyed was 29 per cent. higher, the number of miles travelled by goods trains was 6 per cent. lower, indicating heavier trains. These results are reflected in the gross receipts per train mile, those for passenger trains being one penny less and for goods trains 1*s* 6¼*d* more.

The almost uninterrupted increase, year by year, in the gross earnings of our railways is the most encouraging feature in railway finance; but the rate of increase in the expenditure has been still greater, and the question arises whether this increasing expenditure is to continue or whether it

may be possible to check its progress by the introduction of economies. On this subject the writer, not being a railway expert, is incompetent to offer any reliable opinion; but, whatever may be the expert opinion, there is evidence that it will require the exercise of a great deal of economy to counterbalance the almost inevitable future increase in the expenditure from causes beyond the control of railway officials. Perhaps the most threatening of these arises from the attitude of railway employees; for professional agitators keep alive among the men employed a constant feeling of discontent, and it is only natural that men, who are being assured that their hours of labour are too long and their pay too small, should lend a willing ear to such seductive music or that they should be excited by it to conflicts with their employers. The result of such conflicts sometimes may, and sometimes may not, be in their favour, but there can be little doubt that the general tendency of the labour market is in the direction of shorter hours and more pay.

A further cause for anxiety is the attitude which, of late years, has been assumed by Parliament towards railway companies. Having sanctioned and encouraged shareholders to invest their money in establishing and carrying on the largest trading business in the country, Parliament seems now to be disposed to regard it as an injurious monopoly which requires to be coerced into working the

railways with an exclusive regard to the interests of the public, forgetting that the railways would never have been made if the shareholders had not relied on obtaining a fair and adequate return for their money. With a declining dividend, the shareholders are confronted with demands for reduced freight rates and fares and for workmen's trains at unremunerative rates.

Increasing local rates are another heavy burden on railways, and they are likely to continue to increase unless the expansive ideas of local authorities are checked and controlled. At present the notion seems to prevail that individual effort and enterprise may be superseded by rate-aided schemes. Municipal indebtedness is a growing danger, as every fresh scheme is carried out with borrowed money, the interest on which is an increasing burden on ratepayers, more especially railways, whose property is heavily assessed.

Another cause pointing to increased expenditure on railways arises in regard to coal and iron, the articles of largest consumption on railways, and as the price of iron depends very much on the price of coal, any increase in the cost of the latter adds seriously to the expenditure of railway companies. That the best (*i.e.*, the thickest and most easily worked) seams of coal are gradually approaching exhaustion is a melancholy, but undoubted, fact; and, when deeper and thinner seams come to be worked, the cost of working will be greater with a

corresponding rise in price, and this rise may be accelerated by the free exportation of this great national resource and by demands from the miners for higher wages. Indeed it would seem that, from one cause or another, the tendency to a rise in price is already apparent as will be seen from the following table, the figures in which are taken from the official "Mineral Statistics" issued from the Home Office:

Years.	Approximate price of coal at the mines per ton	Years.	Approximate price of coal at the mines per ton
	s. *d.*		*s.* *d.*
1890	8 3	1898	6 4¼
1	8 0	9	7 7
2	7 3	1900	10 9¾
3	6 9½	1	9 4¼
4	6 7½	2	8 2¾
5	6 0½	3	7 8
6	5 10¼	4	7 2½
7	5 11	5	6 11½
AVERAGE	6 10¼	AVERAGE	8 0¼
		1906	7 3½

The prices in 1900 and 1901 were exceptional, but omitting those years the average for the six years 1898-9 and 1902-5 is 7*s* 4*d* per ton against 6*s* 10¼*d*, the average of the previous eight years.

The causes thus enumerated will almost certainly entail upon railway companies increased expenditure in the future, and should lead Directors to husband their resources and to seek

improved methods in dealing with the traffic, so that all unnecessary wear and tear and all waste of power may be avoided.

Although the increasing expenditure absorbs a good deal of the improvement in gross traffic receipts, the net receipts in 1906 were, notwithstanding, £7,685,931 more than they were in 1890, and would have afforded a substantial increase in the dividend if the capital charges had not been swollen by continual additions to the permanent debt.

The large annual additions to the capital of British railways constitute the most serious item in railway finance, and, when the increase of capital is compared with the additional miles of railway opened, it becomes evident that a policy is being pursued which, if persisted in, may ultimately land railway companies in serious difficulties. The capital of British railways (excluding nominal additions) stood in 1906 at £5,461 per mile more than in 1890, and it must be remembered that, with some unimportant exceptions, the whole of the capital has been raised irredeemably in the shape of perpetual Stock. If the whole of the capital raised since 1890 had been expended in making and equipping new lines, it would follow, looking at the additional mileage, that the new lines had cost about £84,000 per mile. But the whole of it has not been devoted to extending the mileage of the

railways, as a large part has been laid out on improvements, additions and reconstructions on railways already completed, and in work, and already charged with the cost of construction and equipment. There is no information in the official returns as to the amount so laid out, and, in order to get at it, the half-yearly accounts of every railway in the Kingdom would have to be examined; but, on reference to between forty and fifty half-yearly accounts of some of the leading lines (which happen to be in the writer's possession), it is found that, while the proportions vary very much each half-year, the general result is that about 38 per cent. of the whole capital expenditure was incurred on lines already open for traffic.

Railway Directors no doubt contend that every improvement, addition and reconstruction made on an old line increases the value of the property. This may be so in theory, but the same theory may be applied to simple repairs, for it is certain that a thing in disrepair increases in value by being repaired. Repairs and gradual improvements and reconstructions are necessary to maintain a business, and, if neglected, the business is likely to suffer; but that is no reason why a railway company should encumber itself with a perpetual debt in order to carry them out and thus mortgage any possible or even probable increase in its business. Apart from the theory,

in practice there is no certainty that such expenditure will secure increased earnings, inasmuch as improvements may prove to be mistaken, additions may turn out useless or unremunerative, and reconstructions may have to be undertaken merely because the original construction was a badly planned one. The policy of charging such expenditure irrevocably to capital is, therefore, an unwise and short-sighted policy.

In the supplement to *The Times* newspaper of July 1st last there appeared a communication from a "railway correspondent" on railway companies' accounts and reserves, which it may be surmised was written by a railway official as a sort of apology in justification of charging capital with work executed on lines already completed and in work. The writer states "one sometimes hears it asserted by way of criticism that railway companies are in the habit of charging against capital expenditure sums which in a private concern would be borne out of revenue. That may be so, but it must be remembered that a course of action that might be both admissible and expedient in connection with a private undertaking might be altogether *ultra vires* in the case of a railway company. For instance, in a private business, by arrangement amongst the partners advantage is sometimes taken of a good year to make an extension of buildings or machinery out of profits, but few shareholders would suggest that a railway

company would be justified in acting in a similar way. Railway shareholders are entitled at the end of each half-year to whatever profit may have been made, and it would not be fair to use that profit for the purpose of increasing the *corpus* of the undertaking for the possible benefit of other shareholders in future years."

This attempt to show that railway companies should conduct their business on different lines to those taken in other businesses is rather weak, for the writer has no authority whatever for the statement that railway shareholders are entitled to the whole of the profits of each half year. Without going into the question of what is the correct definition of the "profits of each half year," it is sufficient to say that shareholders are clearly only entitled to so much of the earnings as the Directors think it prudent to divide amongst them. Neither is there any authority for his suggestion that it would be altogether *ultra vires* to charge improvements and additions on existing lines against revenue; indeed the writer almost immediately afterwards gives himself away by not only justifying but commending the creation of reserve funds (even hidden reserves) out of current revenue to meet future contingencies and to equalise future dividends.

The fact is a railway company is a trading company, and, like every other trading company, and every individual trader, it has not merely to

look at its present position and divide everything it can screw out of gross income, but it is its first duty and its first interest to look forward and to adopt every precaution which appears necessary or desirable in order to ensure (as far as possible) the stability and future prosperity of the business; and a railway company which borrows money irredeemably in order to carry out improvements, additions and reconstructions on a line already open and in work, and already burdened with a heavy capital outlay in its construction and equipment, subjects itself to the charge of improvidence in favouring the present at the expense of the future.

The great length to which the system may be carried is exemplified when the writer in *The Times* says that "if the original cost of an old (Railway) coach was £300 and the cost of a new one built to replace it is £500, the difference of £200 would be properly debited to capital account." That is to say that the £200 is to be borrowed irredeemably and added to the permanent debt of the company, although probably fewer of the new pattern coach will be required to carry the same number of passengers.

The fallacy running through the communication is best shown by a reference to the accounts of American railways where the *ultra vires* argument is entirely disregarded. In the supplement to the *Statist* newspaper of June 15th last, will be found

an exhaustive statement respecting American railways, and it is there remarked that "The actual capital expended in the eleven years from 1893-4 to 1904-5 was of course very much larger than the nominal capital, a large portion of the increasing profits of the railways having been used for betterments. In 1893-4, while the profits earned were less than $73,000,000, the dividends distributed amounted to $83,000,000; but in 1904-5, out of profits of $315,000,000, only $193,000,000 was distributed in dividends, and no less than $122,000,000 was devoted to betterments and capital purposes."

In reference to the Pennsylvania railroad it states, "The important matter to be noted is that, beyond distributing a dividend of 6½ per cent. upon its common stock in 1906, the Pennsylvania railroad applied no less than $15,447,000 to improving its property, and the controlled lines also devoted large sums to betterments."

Concerning the Lehigh Valley railroad it states that last year, in addition to constructing new bridges, making private sidings and other works, sixty-five powerful locomotives were added to the stock, and considerable additions were made to the freight cars, "not a single dollar of the large expenditure being charged to capital."

In the case of the Chesapeake and Ohio railway it states "That the Company is distributing only 1 per cent. dividends whilst its profits are suffi-

cient to pay nearly 7 per cent., is due to the effort to keep down the capital account and to improve the property out of profits."

Similar remarks are made respecting nearly all the American lines, a notable exception being the Chicago Great Western which is "financed on English principles; practically all improvements are charged to capital, and whatever profits are earned are divided." This line pays no dividend on its common stock.

And what is the natural result of this difference of treatment of the capital account between American and British railways? It is this: that whereas between 1893-4 and 1904-5 the American railways increased their capital by only about £1,300 per mile, the United Kingdom railways, between 1894 and 1905, increased their capital by about £3,900 per mile (irrespective of nominal additions).

But, to come nearer home, it will be found that the best managed industrial and trading companies either pay directly out of profits, or accumulate reserve funds, to provide for the improvements, extension and reconstruction of their premises; while Parliament has adopted a still more stringent view in dealing with corporate bodies who are entrusted with the expenditure of other people's money, as it has enacted that when local authorities desire to borrow money for the purpose of establishing an entirely new work (not merely for

the purpose of improving or extending an existing work) they are only to be allowed to do so on condition that they repay the money borrowed within a certain time. If, for instance, they borrow to construct light railways or tramways, they have to repay the whole of the borrowed money within a limited time.

Railway officials may, and perhaps do, contend that, so long as capital expenditure is accompanied by a corresponding increase in the net revenue, that expenditure is justified. This is a plausible but unsound contention, though in early days it may have been applicable with some show of success; but, in more recent years, even this contention is of no avail, as is indicated in the following table, in which an attempt is made to show how far the increased net revenue of British railways has been able to meet the increased annual charge, owing to the additions to capital, in each year from 1890 to 1906. It has been assumed for this purpose that the additions to capital have been raised at 3¼ per cent., which is probably below what the companies have had to pay.

The figures for the years 1905 and 1906 show that railway companies exercised more moderation than formerly in raising fresh capital with the result that the increased net revenue considerably more than covered the increased annual charge on the capital raised; though it may be assumed

that in 1906 it was not so much a change in the policy of the companies as the unfavourable condition of the money market that was the cause

UNITED KINGDOM.

YEAR.	Increase of Capital (excluding nominal additions).	Increased Annual Charge (assuming that the Capital was raised at 3¼ per cent.)	Increase (+) or Decrease (—) in Net Traffic Receipts.	Increase of Net Traffic Receipts Greater (+) or Less (—) than the Increased Annual Charge for Capital.
1890-1891	14,851,354	482,669	— 28,522	— 511,191
1891-1892	20,949,157	680,848	— 357,549	—1,038,397
1892-1893	17,013,677	552,944	—1,437,302	—1,990,246
1893-1894	11,080,565	360,118	+ 2,165.745	+ 1,805,627
1894-1895	8.272,271	268,849	+ 943,547	+ 674,698
1895-1896	10,515,006	341,738	+ 1,880.633	+ 1,538,895
1896-1897	14,159,203	460,174	+ 726,552	+ 266,378
1897-1898	13,666,291	444,154	— 361,292	— 805,446
1890-1898	110,507,524	3,591,494	+ 3,531,812	— 59,682
1898-1899	16,596,315	539,380	+ 1,284,420	+ 745,040
1899-1900	21,581,556	701,401	—1,518,040	—2,219,441
1900-1901	18,974,463	616-670	— 989,262	—1,605,932
1901-1902	19.370,270	629,534	+ 2,559,426	+ 1,929,892
1902-1903	16,796,410	545,883	+ 698,357	+ 152,474
1903-1904	20,526,375	667,107	+ 333,882	— 333,225
1904-1905	13,458,992	437,417	+ 805,615	+ 368,198
1905-1906	13,337,994	433,485	+ 979,721	+ 546,236
1898-1906	140,642,375	4,570,877	+ 4,154,119	— 416,758
1890-1906	251,149,899	8,162,371	+ 7,685,931	— 476,440

of so small an amount of capital being raised in that year. The present year will probably show similar results, but it may be conjectured that when money becomes cheaper the companies will

make up for lost time in the execution of works which have been merely postponed.

Looking, however, at the whole period, 1890-1906, it will be noticed that the increased net receipts fell short of the increased annual charge on capital by £476,440; and an indication, that this failure of increasing net revenue to meet increasing capital charges has a tendency to become more pronounced in the future, is afforded by comparing the results for the last eight with those for the first eight years—the deficiency in the first eight years being only £59,682, while in the last eight years it amounted to £416,758.

Railways being now burdened with a capital of £55,799 per mile, the question of course arises whether it is not too late to rescue them from the mistaken policy of incurring irredeemable debt in order to relieve revenue of some of the expenditure on completed lines. The permanent indebtedness of British railways has now grown to such colossal proportions, and the annual revenue required to afford a moderate dividend on this capital is so large, that it may be doubted whether directors will have the courage to propose, and whether shareholders can afford, or will have the self-denial, to acquiesce, in any temporary sacrifice of income; but the most moderate and practical remedy for the future would be to make all sums charged to capital, on account of lines already open for traffic, repayable to capital, out of income, by annual

instalments extending over a limited number of years.

The adoption of this course, while it would necessarily reduce the dividends for a time, would stop that gradual but permanent reduction which, according to the foregoing figures, seems to have already made some progress. The signals point, if not to "danger," at all events to "caution," and the engine "capital" should be slowed down.

The foregoing remarks will not appeal to mere speculators in railway securities who, naturally, only watch the turn of the market, and care little about the future welfare of the companies whose stocks they deal in; they are addressed more especially to those permanent holders who have invested their savings in railway shares with the expectation that they will enjoy a fairly steady and durable income from the investment. These holders will do well to watch with care the capital account of the lines in which they are interested, as it is on the prudent and provident limitation of capital charges that the permanence of their incomes will in a great measure depend.